C05100-1

JULY 22, 1985

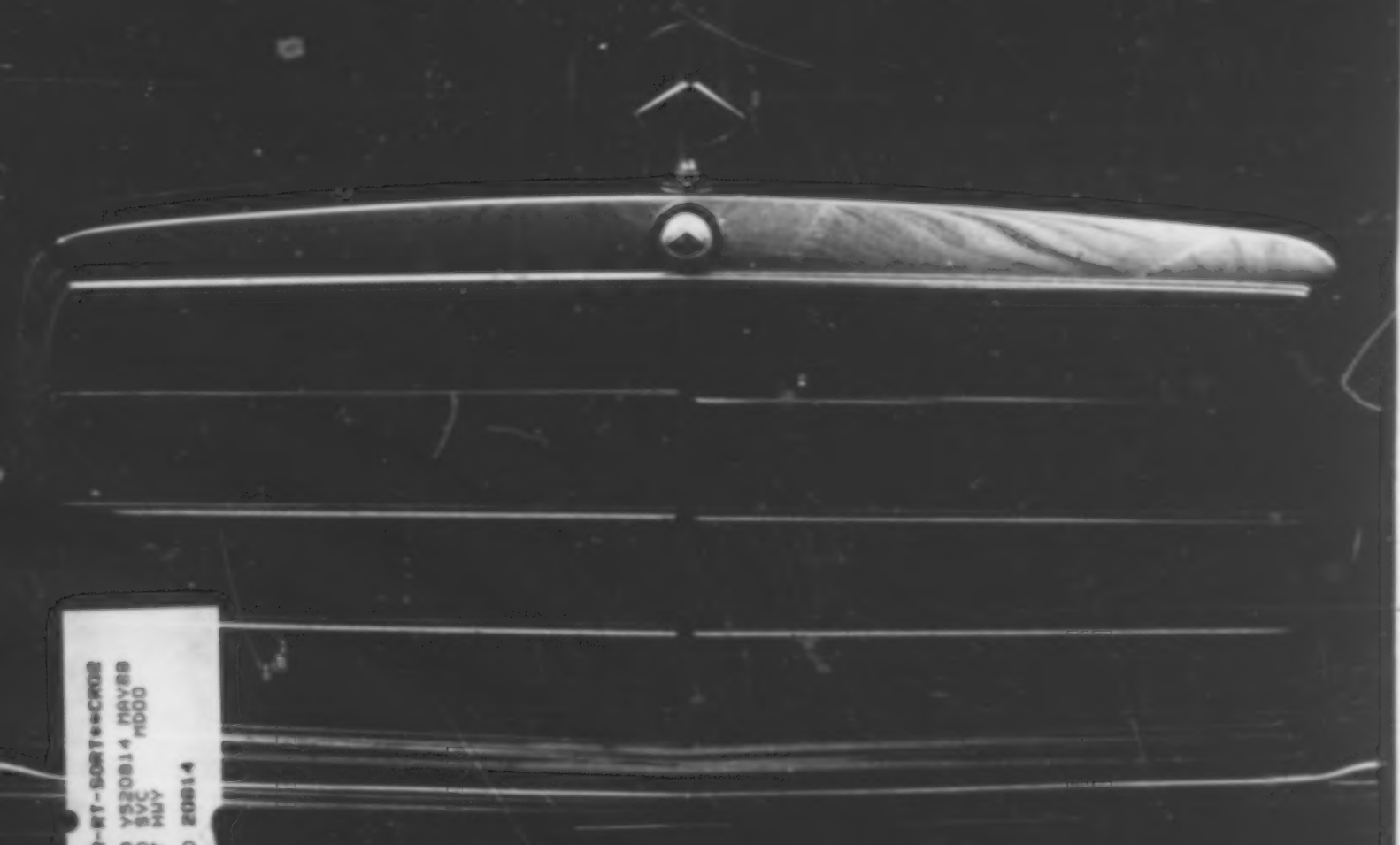
$3.50

FORTUNE

THE NEXT 18 MONTHS
An industry-by-industry forecast

EXECUTIVE PERKS

WHAT'S HOT—AND HOW
REAGAN'S TAX PLAN
MIGHT CHANGE THINGS



GETTING SET FOR LOWER OIL PRICES

THE LIMITED WAR ON WHITE-COLLAR CRIME

BEATRICE'S CONTROVERSIAL CHAIRMAN

CAR-RT-SORT**C-R02
Y520814 MAY88
INFO SVC
MUV
MD 20814

JULY 22, 1985 VOL. 112, NO. 2

FORTUNE

Many executive perks, symbolized in Carl Fischer's cover photo of a Mercedes-Benz 500 SEL's grill, will survive tax reform. See page 26.

MANAGING

Executive Perks Under Fire 26
Reagan's tax reform takes aim at these special benefits. *by Felix Kessler*

THE ECONOMY

Fortune's Forecast for the Next 18 Months:
- **The Recovery Will Keep Its Cool** 34
- **The Outlook for 16 Industries** 38

SPECIAL REPORT: GETTING SET FOR LOWER OIL PRICES

Cheaper Oil Would Be Golden 44
Lower prices would perk up Europe and put new zip in profits worldwide. *by Alejandro Ehrbar*

OPEC Discovers the Perils of Price-Fixing 51

The Policeless State of OPEC 52

CORPORATE PERFORMANCE

IRI: An Italian Money Loser Bets on the Bronx 55

Applied Biosystems: Cloning Profits 55

Companies to Watch 56

SELLING

Marriage Megabucks 58
Big weddings are in—and paying off. *(A picture portfolio)*

TECHNOLOGY

Cutting U.S. Dependence on Strategic Metals 69

Digital Diagnoses 69

MONEY & MARKETS

Is Business Taking On Too Much Debt? 82
At most companies it's still within safe limits. *by Kenneth Labich*

POLITICS & POLICY

Making the Best of Tax Reform 86
Companies are making plans now, just in case. *by Ann Reilly*

The Limited War on White-Collar Crime 90
Some of the government crime fighters don't relish the fight, and critics say the assault is soft and too narrowly focused. *by Carol J. Loomis*

Unwatched Trade Issues Come to a Boil in Washington 105

A Fight over Carrying the Grain 105

Interstate Banking Suddenly Moves Closer 106

PROFILE

The Controversial Boss of Beatrice 110
Chairman James Dutt's pursuit of a better Beatrice has so far made things worse. *by Arthur M. Louis*

People to Watch 116

The Editor's Desk 4

News/Trends 10
IBM squares off against AT&T, the prime rate drops, and more.

Follow-Up 13
Fireman's sale at American Express, dogfight over fighter planes, and more.

Letters to Fortune 15

Keeping Up 119
by Daniel Seligman

Personal Investing 121
Revamped companies. Municipal bonds after tax reform. REITs. Portfolio Talk: Fund manager Irwin Lainoff.
by John J. Curran

Other Voices 133
Hobble the raiders.
by Harold M. Williams

On the Road 141
Washington's hotel boom.
by Anthony Ramirez

Books & Ideas 149
How to measure merit.
by Richard Herrnstein

Index 154

Office Hours 155
Life after downsizing.
by Walter Kiechel III

IS BUSINESS TAKING ON TOO MUCH DEBT?

Takeover battles and leveraged buyouts have lengthened the roster of U.S. companies deeply in hock, and wanton borrowing has produced well-publicized bankruptcies. But most companies' debt, while high by historical standards, is far from the danger zone. ■ *by Kenneth Labich*

A DREAD OF DEBT no longer inhibits the top managements of U.S. corporations, which through good times and bad have been taking on more and more of it. But despite the lurid worries of many financial observers, corporate America doesn't seem to be borrowing its way to disaster.

In 1960, the total liabilities of FORTUNE 500 industrial companies—mostly short- and long-term debt—averaged 35% of assets; shareholders' equity made up the balance. At the end of last year the liabilities figure stood at nearly 55% (see chart on page 84). This shift toward greater leverage horrifies some leaders of the financial community, who are also uneasy about the debt many companies are piling on to thwart takeovers or to carry out leveraged buyouts. Much of the new debt, these critics note with dismay, takes the form of high-yield "junk" bonds.

Felix Rohatyn, a partner at the New York investment banking house of Lazard Frères, envisions a toppling of dominoes if the economy falters and corporate cash flows taper off. "Not only is this situation dangerous for the companies burdened with debt," he says, "but also to the institutions holding it."

Some chilling statistics suggest that the worriers have a point. According to the Federal Reserve Board, the debt of nonfinancial corporations rose $176 billion last year, to $1.3 trillion. Short-term debt, moreover, stood at a record 52% of total debt at the end of 1985's first quarter. On the face of it, this leaves companies more vulnerable than ever to a flare-up in interest rates. The rising indebtedness of companies not only seems risky in many ways, but even a bit perverse in the economic and political climate of the 1980s. A long-standing justification for leverage—inflation—is declining; borrowers can no longer look forward to repaying with fast-cheapening dollars. More serious, the cash flow from which most industrial companies repay may shrink if the Reagan Administration can enact its tax plan, which would kill the investment tax credit and stretch out depreciation write-offs.

However, long before managements push leverage to the 100% level, courting Chapter 11 proceedings, concern about creditworthiness will compel them to halt. Meanwhile, the rise in debt is not as serious as it appears. Decades of inflation have left assets on corporate balance sheets grossly undervalued—a fact well known to raiders. Hence, the shareholders' equity portion of capital is understated and the debt proportion exaggerated. Robert A. Taggart, a Boston University economist, says that when the market value of corporate assets is used in the comparison, corporate debt is a slightly smaller proportion of capital than in the early 1970s.

Nor is the growth in short-term debt necessarily cause for alarm. Many chief financial officers, convinced that interest rates will continue down, are holding off refinancing that debt with medium- and long-term bonds. So long as interest rates are falling, moreover, companies can service debt more cheaply than they could several years ago. Interest payments as a percentage of cash flow have actually fallen since the beginning of the decade.

Recent history provides the most telling argument for viewing the debt trend with comparative calm. The combination of events most feared by the Cassandras—soaring interest and a recession—occurred in 1981 and 1982. The prime rate on bank loans shot beyond 20% and business went through the worst slump since World War II. Bankruptcies rose, but most corporations stayed solvent by a wide margin.

Another slump could be more serious. But defenders of the trend to increased indebtedness say most companies, particularly those in high-growth industries, can safely live with it. Frederick Joseph, chief executive of Drexel Burnham Lambert, the leading underwriter of junk bonds, contends that any analysis of U.S. corporate debt has to be undertaken case by case. "Overall statistics on debt," he says, "are as useful as saying the planet on average is five feet underwater."

SOPHISTICATED new financial techniques have lessened the hazards of carrying debt. Clayton & Dubilier, a leveraged buyout firm in New York, commonly employs a combination of tactics to guard companies it takes private against interest rate hikes. It may arrange a "swap" and transfer the company's short-term interest obligations to another company that is overburdened with long-term obligations. It may also encourage the company to invest in financial futures, which have become widely used only in the past five years. By going short on Treasury bond futures, for instance, a company can earn enough to offset some of its added debt costs if interest rates shoot

RESEARCH ASSOCIATE: *Willow Woods*

up. Says Joseph Rice, Clayton & Dubilier's president: "These instruments are available and a lot more people—the smart ones—are using them." Rice has been working out the details of a $1-billion leveraged buyout of Uniroyal Inc. by a group of investors.

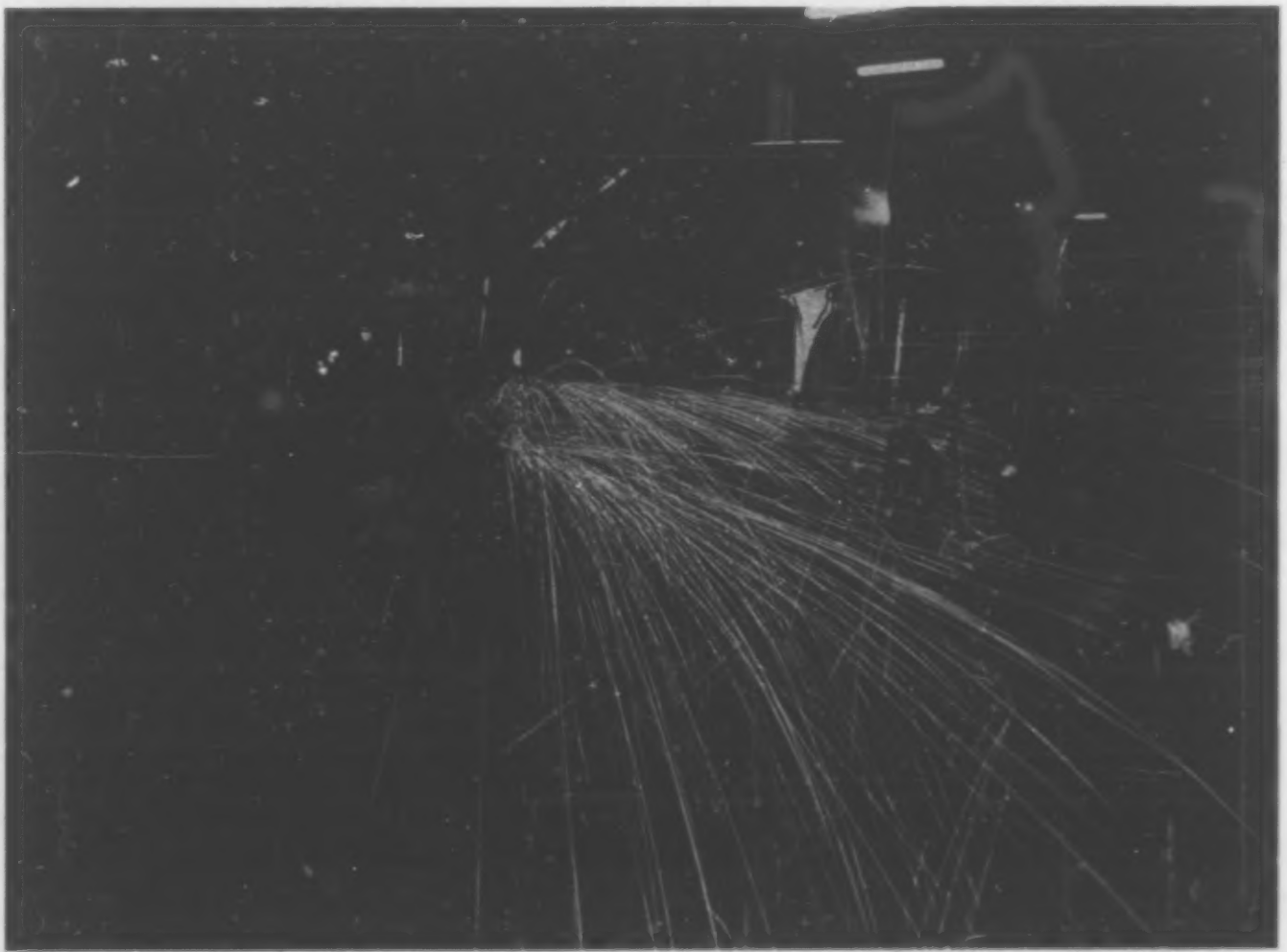
For some companies, increased leverage can be an unalloyed blessing. Stock buybacks by financially strong corporations in recent years, which often have had the effect of raising debt-to-equity ratios, have been a bonanza for shareholders who held on to their shares. A recent FORTUNE study (April 29) shows that over the decade through 1984, stockholders in companies that bought back shares enjoyed a far larger total return on their investments than stockholders in general. Kellogg Co., which had little long-term debt until last year, borrowed to buy in 20% of its shares. Since then the stock has zoomed 50% to a recent $59 a share, outpacing even the fast-rising group of food stocks.

Other companies go deeper into debt because they see long-term payoffs. They're building new plants to serve expanding markets or making acquisitions that they hope will boost profits. Monsanto, a St. Louis chemical company, says it would be prepared to raise long-term debt from 18% of capital to 30% to make a major acquisition. Betting that new products will emerge from its genetic engineering division, the company has been in the market for a large pharmaceutical company to distribute them.

PUSHED TOO FAR, leverage can of course be a curse. In speeches around the country, Securities and Exchange Commission Chairman John S.R. Shad recites a partial roster of companies that borrowed with bravado and then went bankrupt—Baldwin-United, Charter Co., Lionel, Saxon Industries, Wickes Cos. Saxon is now part of Alco Standard Corp. and Wickes recently emerged from Chapter 11 proceedings.

The specter of financial ruin also hovers over Rust Belt companies that have borrowed to modernize, expand, or merely hold on to market share. Many have been savaged by imports and by plunging demand for basic materials. "Some of the heavy users of debt are not the best users," says Donald W. Mitchell, a Cambridge, Massachusetts, management consultant. "Corporations that should have been trimming their sails have been borrowing a lot of money." Wheeling-Pittsburgh Steel, one of the most heavily leveraged companies in its industry, is in bankruptcy proceedings, and LTV Corp.'s net worth has sunk while long-term debt has soared. Phelps Dodge, a copper producer, took on more and more debt in the 1970s and early 1980s to finance modernization and pollution abatement equipment. Since then, with copper prices sagging, it has had to sell off chunks of the business to keep going.

Takeover battles have left a lot of companies mired in debt. Martin Marietta escaped the clutches of Bendix Corp., now part of Allied Corp., only by borrowing heavily to buy back its shares. Though the company has



At highly leveraged American Motors, *borrowing helped pay for robots at a Kenosha, Wisconsin, plant that's now shut down in a labor dispute.*

PHOTOGRAPH BY HEINZ KLUETMEIER

worked down its huge indebtedness by selling off big pieces of the business, interest costs ravaged earnings for several years. Merger mania in the oil industry has created huge and burdensome new obligations. Chevron Corp. is a long way from climbing out of the $12-billion debt hole it dug itself into during last year's purchase of Gulf Oil. Through restructurings financed by huge debt, Phillips Petroleum and Unocal Corp. have escaped the clutches of T. Boone Pickens. Debt-heavy oil companies live under a special kind of danger these days: interest payments will decimate their profits if oil prices plunge (see The Economy).

The high debt burdens of merger mania extend beyond companies under attack. Merely to make their balance sheets and cash flows less enticing to laser-eyed takeover artists, some managements have made major acquisitions of dubious merit. Fearing a raid, Chesebrough-Pond's, a Connecticut-based personal-products company, bought Stauffer Chemical in February for $1.25 billion, or 19 times estimated 1985 earnings. Chesebrough's debt went from about 45% of capital to 70%. Standard & Poor's, discerning few benefits from the merger, knocked the company's bond rating down from AA− to BBB. Overall, Standard & Poor's has downgraded the long-term debt ratings of 438 nonfinancial companies and has upgraded those of only 295 since the beginning of 1983.

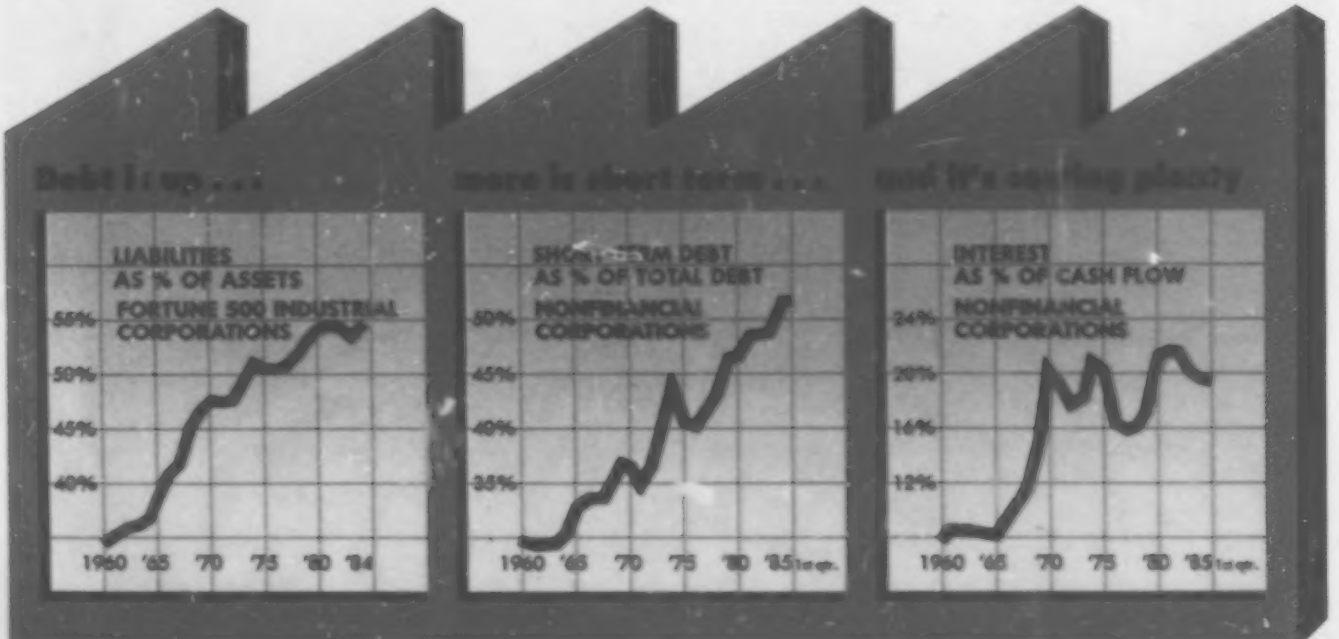
At first glance, companies involved in leveraged buyouts seem downright foolhardy. The buyouts are commonly accomplished with 10% to 20% equity and new debt consisting, more often than not, of junk bonds.

BECAUSE most bought-out firms go private, it's difficult to judge their performance. But most companies seem to have coped successfully, and for good reason: buyout specialists and their lenders have generally screened them for their ability to pay down debt. The great majority of companies have done so faster than expected, specialists in the field say. Dr Pepper slashed debt by selling off assets. Executives of Kohlberg Kravis Roberts & Co., the most prominent buyout firm, point to the record of several companies it bought in 1980 and 1981 and later took public or sold to public companies: PT Components, a maker of engine parts; Norris Industries, which produces construction and industrial products; and Lily-Tulip, the paper cup maker. Even though interest rates were spectacularly high during the period, all three companies paid down their debt substantially. PT Components, which went public early this year in a stock offering, reduced its long-term debt from $134 million in late 1981 to $85 million three years later.

A large debt load, contends Rice of Clayton & Dubilier, compels bought-out companies to operate more efficiently: they have to or they won't survive. Therefore, they control inventories and production costs rigorously, keep employment rolls lean, and hold down management perks. Says Rice, "You don't go around building lavish headquarters as a monument to your chairman."

Rice and others note that leveraged buyouts have resulted in extremely few bankruptcies. And they say that, unlike some corporate raiders who bid for companies with no intention of eventually operating them, buyout firms take a piece of the equity. Says Theodore Forstmann, a general partner at the buyout firm Forstmann Little & Co., "We are owners and we think like owners." In a philosophical vein he adds: "Every idea that's beneficial if used moderately and prudently is a menace if used imprudently."

That's exactly what's happening, some alarmists say, with junk bonds. They get the label because they are rated below "investment grade," Baa3 or BBB−, respectively, at Moody's and Standard & Poor's. Increasingly, they're turning up in takeovers as well as leveraged buyouts. Ted Turner's $5.4-bil-



Wall Street Cassandras are appalled by corporate America's swing toward higher leverage. As the chart at left shows, liabilities—mostly debt—have climbed steeply as a percentage of total corporate assets since the early 1960s. Critics of the trend also fret about the changing composition of the debt. More and more of it is short term, making some companies vulnerable to jumps in interest rates. As the chart at right demonstrates, interest expense has become a far greater burden than in the past; these days it's equal to a fifth of the average corporation's cash flow.

lion bid for CBS would be financed mostly with junk bonds. But because many takeover bids come to nought, far more junk bonds are brandished during the battles than are ever issued. Drexel Burnham estimates that only 12% of the junk bonds it issues wind up being used in takeovers. Drexel chief Joseph argues that most high-yield bonds, as his firm prefers to call them, serve as a valuable source of capital for companies that don't measure up at the bond-rating agencies—new or small companies without a long track record and once distressed companies that are making a comeback.

The nightmare of most top corporate executives is that their bonds might somehow fall to the lowly junk category. But an obsession with maintaining bond ratings, some financial experts say, unduly restrains many companies when taking on a somewhat larger debt load might be desirable and prudent. Robert H. Litzenberger, distinguished professor of finance at the Stanford Business School, is no advocate of heavy leverage. But he chides managers who "talk only about keeping their bond rating up by keeping debt down. In many cases that may not be the optimum course."

EVEN SOME top officials at the big rating agencies concede that certain financial managers may be unnecessarily timid about leverage. "We worry about the weaker companies whose debt is moving up a notch," says Solomon B. Samson, senior vice president for industrial ratings at Standard & Poor's. "But we know there's debt capacity out there, and some strong companies should be using more."

How much is too much? As long as debt remains well short of 100% of capital, the question is unanswerable. How much a company borrows, however, may depend less on abstract yardsticks of prudence than on the age of its chief financial officer. Economist Henry Kaufman, vice chairman of the diversified financial firm Phibro-Salomon Inc. and a foe of high leverage, blames much of it on a new breed of wrinkle-free financial managers weaned on junk-bond financing, two-tier buyouts, and the like.

Without doubt the younger crowd views debt far less harshly than its predecessors—many of whom retain a lingering memory of Depression horrors. Take Donald R. Kronenberger, the 64-year-old vice president and treasurer of Goodyear Tire & Rubber Co. Kronenberger recalls seeing soup lines stretching for blocks when he was growing up in Cleveland. He takes a dim view of debt and talks with genuine anxiety about Goodyear's flirtation with high leverage a decade or so ago. It was a time when the company was pumping capital into new, highly automated plants to compete with Michelin in the burgeoning radial-tire market.

Goodyear's debt as a percentage of capital reached 49%. The figure has fallen back to the 30% to 35% range in recent years—and Kronenberger sleeps a lot better. He's about to retire, and appears glad to be leaving before any newfangled notions take root at his company. He simply can't understand how financial managers live comfortably in the shadow of mountainous debt, and has a special aversion for leveraged buyouts. Says Kronenberger, "They are an idea that was created in hell by the devil himself." Many of the new breed of financial chiefs would find such views quaint, but that doesn't necessarily mean they intend to lead their companies to perdition.

THE DEBT BURDEN BY INDUSTRY

	LIABILITIES AS % OF ASSETS 1984	1974
Retailing	68.8%	58.6%
Utilities	64.3%	62.6%
Transportation	64.0%	63.6%
Metals	61.4%	48.6%
Aerospace	61.1%	62.0%
Petroleum refining	59.5%	49.9%
Drugs	58.6%	41.7%
Motor vehicles and parts	58.6%	50.4%
Food	56.4%	56.0%
Electronics	54.0%	55.5%
Forest products	52.6%	51.6%
Chemicals	52.2%	50.3%
Rubber	51.8%	57.0%
Textiles	45.9%	50.5%
Computers	44.9%	42.9%

The Debt Derby

Debt is up in most sectors of industry on FORTUNE*'s 500 lists, but it's higher in some sectors than in others. Retailers are tops in liabilities because of a multitude of long-term store leases. Computer companies rank last.*

THE MOST DEBT-BURDENED OF THE TOP 100 INDUSTRIAL CORPORATIONS

	LIABILITIES AS % OF ASSETS
American Motors	94.8%
Coastal	82.5%
Control Data	81.5%
LTV	80.3%
Ashland Oil	79.0%

THE LEAST DEBT-BURDENED

	LIABILITIES AS % OF ASSETS
Digital Equipment	28.9%
American Home Products	31.1%
Hewlett-Packard	31.2%
Eastman Kodak	33.8%
Bristol-Myers	33.9%

Letting Go—and Holding Back

Aside from International Harvester—whose liabilities exceed assets—American Motors was the most leveraged of the major industrial corporations at the end of 1984. The company borrowed heavily from its French partner, Renault, to introduce a new compact car to the U.S. market. Control Data has a subsidiary, Commercial Credit, that tilts its liabilities upward. Ashland Oil has since improved its balance sheet. The conservative companies on the list at right carry little or no long-term debt.

AUG
5
1985

AUGUST 5, 1985

$3.50

FORTUNE

COKE'S ABOUT-FACE
THE BRAND-LOYALTY LESSON

THE FALL OF STEVE JOBS
BEHIND THE SCENES AT APPLE COMPUTER

NBC'S AMAZING COMEBACK

THE BOOM IN EXPENSIVE CARS

U.S. EXPORTERS: FORTUNE'S TOP 50

FORTUNE

Ed Kaski's cover photo shows the man who lost the battle at Apple.
See page 20.

CORPORATE PERFORMANCE

Behind the Fall of Steve Jobs 20
Apple Computer's chairman lost his operating role after trying to oust the chief executive he recruited. *by Bro Uttal*

NBC's Peacock Struts Again 26
Viewers are flocking back, and profits are soaring. *by Colin Leinster*

Companies to Watch 32

THE ECONOMY

Fortune Forecast:
- **Heading for a Long Walk on a Tightrope** 36
- **Employment Will Slow** 37

MANAGING

The Male Manager's Last Refuge 38
Feminists hate the all-male retreat clubs, but they're richer and more popular than ever. *by Walter McQuade*

SELLING

Coke's Brand-Loyalty Lesson 44
The new-formula goof sheds light on what brand loyalty is—and how not to lose it. *by Anne B. Fisher*

Courting the Well-Heeled Car Shopper 50
Detroit is trying to regain ground lost to the Europeans—and the Japanese are threatening both. *by Anne B. Fisher*

The 50 Leading U.S. Exporters 60
Car and computer makers overcame the strong dollar to sell abroad. No. 1 for the third year: General Motors.

TECHNOLOGY

Picture Phones: New Spin on an Old Idea 63

George Lucas's Droids for Sale 63

MONEY & MARKETS

GE Credit Corp. Braces for the Tax Reformers 66
Reagan's plan would slow General Electric's fast-moving financial subsidiary, but not much. *by Gary Hector*

A New Greenmailer Swings into Action 71

Political Risk Insurance Gets Harder to Find 71

POLITICS & POLICY

The New Libertarians Make Waves 74
Baby-boom business leaders want less government. Their views may reshape the major parties. *by Thomas Moore*

A Scary Comeback for the Soaring Deficit 80

Volcker's Little Plan 80

Slugfest over CBS 81

PROFILE

Retirement Is a Blast for Al Rockwell 82
The former head of Rockwell International wants NASA to sell his new company a space shuttle. *by Bill Saporito*

People to Watch 85

LOOKING AHEAD

The Party's Over for Arms Makers 88
With Congress turning tightfisted, defense contractors have to figure out new growth strategies. *by John Nielsen*

Europe Learns to Sell Arms 93

The Editor's Desk 4

News/Trends 8
Old Coke is it, Stockman's long goodbye, and more.

Follow-Up 11

Letters to Fortune 15

Keeping Up 95
by Daniel Seligman

Personal Investing 99
Regional banks. Ginnie Maes. Food stocks. Portfolio Talk: Fund manager Morris Smith.
by Peter Nulty

Other Voices 105
The trade deficit could be ruinous.
by C. Fred Bergsten

On Your Own Time 109
Powerboating.
by Marilyn Wellemeyer

Index 112

Books & Ideas 115
Rating Presidents.
by Herbert Stein

THE 50 LEADING EXPORTERS

THE FORTUNE DIRECTORY OF THE LARGEST U.S. INDUSTRIAL EXPORTERS

General Motors heads the list for the third year running, though Ford and Chrysler are gaining ground. Computer makers also starred. But a dollar that just kept getting stronger conspired against most American companies selling wares abroad.

THE STRONG DOLLAR continues to hurt many of the companies on FORTUNE's annual list of the 50 largest U.S. industrial exporters. The top 50, led for the third year in a row by General Motors, managed to nudge up exports by a mere $5 billion last year, to just under $65 billion. Boeing, which headed the list from 1979 until 1981, slumped badly in 1984, dropping from second to fourth place on a 25% decline in exports. The aircraft company is still recovering from a big reduction in orders during the recession of 1981 and 1982, and the orders it has tend to be for relatively inexpensive planes. Westinghouse Electric (down 19%) and Signal Cos. (down 13%) were the other big percentage losers.

Three victims of the strong dollar and soft overseas markets—Mobil, A.E. Staley Manufacturing, and Engelhard—disappeared from the 1984 list altogether. R.J. Reynolds, which didn't publish export sales figures for last year, was also dropped from the rankings. Rockwell, absent from the list since 1982, reappeared as No. 45—despite a less than spectacular year: its 1984 exports were $107 million below 1982's. Xerox made its debut on the list this year in the 44th slot. Combustion Engineering, No. 47 in 1982, returned in 48th place after a year's absence. Motorola, which was left off last year's list because it didn't issue complete data for 1983, showed up in 16th place this year.

The Big Three automakers increased exports sharply—they rose from 12% for GM to 30% for Chrysler. The carmakers generally export more parts than completed vehicles. They sell so-called knockdown units—body panels, doors, hoods, and fenders—to their assembly plants in Canada, Mexico, and Europe.

Computer companies also had a fair share of good news. IBM, fifth on the list, increased export sales by over 35%, topping the $3-billion mark. Digital Equipment zoomed from 24th to 13th place, raising overseas sales by 39%. Burroughs (No. 32) scored the largest percentage gain of any company on the list, bringing sales up 47% to $592 million. The company attributes the increase to strong demand for its large mainframe computers and for two relatively new microcomputers. Says Kenn George, director general of the Commerce Department's U.S. and foreign commercial service: "Companies are using America's superior technology to build a better product and are doing a better job of marketing that product." But the computer companies may be in for tough times this year. Sales have slumped domestically and security analysts expect a leveling off abroad.

Overall, the trade balance has never been tilted further against the U.S. The foreign trade deficit reached a high of $123.3 billion last year. The Commerce Department predicts the gap will widen by $25 billion to $30 billion this year, largely because of the strong dollar, a growing U.S. economy that's attracting imports, and the indebtedness that keeps developing countries from buying lots of U.S. goods. America's trade deficit with Japan alone soared to $36.8 billion last year, despite an 8% rise in U.S. exports to that country—mainly computers, chemicals, and corn. The U.S. trade deficit with Canada hit $20.4 billion, and with Taiwan $11.1 billion.

Exports to the two Communist superpowers rose. U.S. sales to the Soviet Union climbed to $3.3 billion, close to the 1979 high of $3.6 billion. The Soviets mainly bought agricultural chemicals and machinery, metalworking equipment, and scientific instruments. U.S. exports to the People's Republic of China jumped $1 billion, to $4 billion. In one of the larger deals GE (No. 3) sold China 220 locomotives worth about $230 million.

Despite the mountainous trade deficit, the U.S. still leads the world in total exports. Until last year, American companies set up subsidiaries called domestic international sales corporations (DISCs) to handle export sales. Part of the income from these sales was sheltered from U.S. taxes if the proceeds were invested in U.S. facilities making goods for export. But America's trading partners, arguing that DISCs were merely paper corporations, complained that the U.S. government was unfairly subsidizing exporters. Since then the government has discouraged DISCs by raising taxes on them.

This year Congress inaugurated a new system to increase exports: U.S. companies can set up foreign sales corporations (FSCs). These are true subsidiaries established outside the U.S. and employing at least one director who lives abroad. While the red tape involved can be formidable, companies with FSCs can exempt 15% to 32% of their export profits from taxes—and can spend the sheltered income any way they wish. U.S. exporters aren't likely to score major gains overseas as long as the dollar rides high, but at least they have an incentive to keep their eyes on foreign markets.

RESEARCH ASSOCIATE *Katharena Leanne Zanders*

RANK '84	RANK '83	COMPANY	PRODUCTS	EXPORTS ($000)	PERCENT CHANGE '83-'84	FORTUNE 500 SALES ($000)	FORTUNE 500 RANK	EXPORTS AS PERCENT OF SALES PERCENT	EXPORTS AS PERCENT OF SALES RANK
1	1	**General Motors** (Detroit)	Motor vehicles & parts, locomotives, diesel engines	7,276,500	12.06	83,889,900	2	8.67	38
2	3	**Ford Motor** (Dearborn, Mich.)	Motor vehicles & parts	6,041,000	27.66	52,366,400	4	11.54	28
3	4	**General Electric** (Fairfield, Conn.)	Aircraft engines, generating equipment, locomotives	3,935,000	−6.95	27,947,000	9	14.08	18
4	2	**Boeing** (Seattle)	Commercial aircraft	3,621,000	−24.66	10,354,000	29	34.97	1
5	7	**International Business Machines** (Armonk, N.Y.)	Information-handling systems, equipment & parts	3,074,000	35.12	45,937,000	6	6.69	43
6	9	**Chrysler** (Highland Park, Mich.)	Motor vehicles & parts	2,706,900	30.23	19,572,700	14	13.83	19
7	6	**E.I. du Pont de Nemours** (Wilmington, Del.)	Chemicals, fibers, polymer & petroleum products	2,650,000	15.07	35,915,000	7	7.38	42
8	5	**United Technologies** (Hartford)	Aircraft engines, helicopters, air conditioning equip.	2,387,810	0.18	16,331,757	16	14.62	16
9	8	**McDonnell Douglas** (St. Louis)	Aircraft, missiles, space systems	2,133,700	1.38	9,662,600	34	22.08	5
10	10	**Eastman Kodak** (Rochester, N.Y.)	Photographic equipment & supplies	1,949,000	10.36	10,600,000	28	18.39	9
11	11	**Caterpillar Tractor** (Peoria, Ill.)	Construction equipment, diesel engines & turbines	1,768,000	11.62	6,576,000	52	26.89	2
12	13	**Hewlett-Packard** (Palo Alto, Calif.)	Computers, electronic equipment	1,420,000	28.51	6,044,000	60	23.49	4
13	24	**Digital Equipment** (Maynard, Mass.)	Computers & related peripheral equipment	1,136,030	39.01	5,584,426	65	20.34	7
14	12	**Westinghouse Electric** (Pittsburgh)	Generating equipment, defense systems	1,129,895	−18.72	10,264,500	30	11.00	30
15	17	**Union Carbide** (Danbury, Conn.)	Chemicals, industrial & high technology products	1,115,000	20.41	9,506,000	35	11.73	26
16	o	**Motorola** (Schaumburg, Ill.)	Semiconductors, radio communications equipment	1,062,000	20.14	5,534,000	67	19.19	8
17	14	**Philip Morris** (New York)	Tobacco products, soft drink concentrates, beer	1,053,000	−2.66	10,137,800	32	10.39	32
18	16	**Exxon** (New York)	Petroleum, chemicals	1,013,000	1.91	90,854,000	1	1.11	50
19	20	**Monsanto** (St. Louis)	Herbicides, chemicals, polymer products, fibers	950,000	0.00	6,691,000	51	14.20	17
20	15	**Signal Cos.** (La Jolla, Calif.)	Engines, chemicals, audio-video systems	890,000	−13.17	6,005,000	61	14.82	15
21	19	**Archer Daniels Midland** (Decatur, Ill.)	Soybean oil, flour, corn byproducts	883,253	−1.97	4,906,962	74	18.00	10
22	25	**Occidental Petroleum** (Los Angeles)	Agricultural chemical products, coal	882,000	9.84	15,373,000	18	5.74	45
23	18	**General Dynamics** (St. Louis)	Tanks, aircraft, missiles, gun systems	876,900	−3.73	7,839,000	44	11.19	29
24	21	**Weyerhaeuser** (Tacoma, Wash.)	Logs, pulp, paperboard, newsprint, lumber	871,080	0.11	5,549,738	66	15.69	14
25	23	**Dow Chemical** (Midland, Mich.)	Chemicals, plastics, magnesium metal	851,000	3.27	11,418,000	25	7.45	41
26	22	**Northrop** (Los Angeles)	Aircraft, electronic equipment, technical services	806,600	−2.55	3,687,800	106	21.87	6
27	26	**Raytheon** (Lexington, Mass.)	Electronic defense systems, aircraft	704,000	0.13	6,104,159	58	12.84	22
28	30	**Lockheed** (Burbank, Calif.)	Aircraft	753,000	26.77	8,113,400	43	9.28	34
29	27	**ITT** (New York)	Logs, cellulose pulp	743,000	0.58	14,000,968	21	5.31	46
30	29	**Allied** (Morris Township, N.J.)	Medical instruments, connectors, fibers, chemicals	678,000	6.44	10,864,000	26	6.24	44
31	28	**Dresser Industries** (Dallas)	Compressors, pumps, oil field equipment	606,000	−5.00	3,732,400	104	16.24	13
32	43	**Burroughs** (Detroit)	Data-processing & business equipment	591,700	67.01	4,808,300	76	12.31	24
33	33	**Minnesota Mining & Manufacturing** (St. Paul)	Electronic, industrial, health & graphics products	576,000	9.68	7,705,000	45	7.48	40
34	35	**Celanese** (New York)	Fibers & chemicals	547,000	11.63	3,328,000	120	16.44	11
35	37	**Deere** (Moline, Ill.)	Farm & industrial equipment	546,000	22.15	4,399,168	86	12.41	23
36	32	**Honeywell** (Minneapolis)	Electronic components, control systems, computers	540,000	0.56	6,138,300	56	8.80	37
37	44	**Sperry** (New York)	Computer systems, electronics, farm equipment	524,900	31.80	5,237,900	69	10.02	33
38	38	**Aluminum Co. of America** (Pittsburgh)	Aluminum, alumina	486,600	10.27	5,750,800	62	8.46	39
39	34	**Emerson Electric** (St. Louis)	Electronic & electromechanical components	483,300	−3.71	4,178,810	93	11.57	27
40	36	**FMC** (Chicago)	Defense equipment, chemicals	453,351	−6.10	3,337,800	119	13.58	20
41	31	**Phillips Petroleum** (Bartlesville, Okla.)	Liquefied natural gas, chemicals, plastics	448,000	−3.66	15,537,000	17	2.88	49
42	42	**International Paper** (New York)	Pulp, paper & wood products	424,000	4.19	4,715,600	80	8.99	36
43	39	**Textron** (Providence)	Helicopters, aerospace products, pens	416,000	1.42	3,221,100	122	12.91	21
44	o	**Xerox** (Stamford, Conn.)	Duplicators, copiers, electronic typewriters	413,700	18.00	8,971,300	38	4.61	47
45	o	**Rockwell International** (Pittsburgh)	Electronics equipment, automotive components	412,000	17.71	9,322,100	37	4.42	48
46	45	**Int'l Minerals & Chemical** (Northbrook, Ill.)	Potash, phosphates, industrial minerals	406,000	3.73	1,546,300	231	26.26	3
47	46	**Ingersoll-Rand** (Woodcliff Lake, N.J.)	Drills, compressors, pumps, bearings, tools	403,800	4.31	2,478,120	151	16.29	12
48	o	**Combustion Engineering** (Stamford, Conn.)	Steam generators, oil & gas exploration equipment	373,224	6.58	3,057,520	133	12.21	25
49	48	**Kaiser Aluminum & Chemical** (Oakland, Calif.)	Aluminum products, specialty chemicals	369,100	0.41	3,478,000	114	10.61	31
50	50	**Borg-Warner** (Chicago)	Air-conditioning equipment, auto parts, chemicals	362,500	0.58	3,915,600	99	9.26	35
		TOTALS		**64,822,963**		**683,491,248**			

o Not in 1983 survey list